

## **INFORMATION BULLETIN #66**

### **INCOME TAX**

**JANUARY, 2003**

**(Replaces Information Bulletin #66, dated November 2000)**

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**SUBJECT:** Enterprise Zones

**REFERENCES:** IC 6-2.1-3-32; IC 6-3-2-7; IC 6-3-3-10; IC 6-3.1-7;  
IC 6-3.1-10

### **INTRODUCTION**

An enterprise zone is an area within a city where there is a significant amount of unemployment, and several business facilities that are not being used to their maximum. An enterprise zone created is in effect for ten years with the potential for two five year renewals. There are currently twenty-nine areas that have been designated as enterprise zones. There are five state tax incentives and one local property tax incentive to encourage businesses to locate in a zone.

The state income tax incentives that are available include: the employee tax deduction; the employment expense credit; the loan interest credit; and the investment cost credit.

## **I. EMPLOYEE INCOME TAX DEDUCTION (IC 6-3-2-8)**

There is an income tax deduction for qualified employees of an enterprise zone business. The qualified employee is an individual who is employed by a taxpayer where the employee's principal place of residence is in the enterprise zone where the employee is employed. The employee must perform services for the employer, ninety percent (90%) of which are directly related to the conduct of the taxpayer's business that is located in the enterprise zone. The employee must perform fifty percent (50%) of the employee's service for the taxpayer during the taxable year in the enterprise zone. Qualified employees include employees of a financial institution, insurance company, and an international banking facility. Also included are employees of a non profit entity, the state, a political subdivision, or the United States Government.

The qualified employee is entitled to a deduction from his adjusted gross income equal to the lesser of;

1. one-half (1/2) of his adjusted gross income for the taxable year that he earns as a qualified employee; or
2. seven thousand five hundred dollars (\$7,500).

## **II. EMPLOYMENT EXPENSE CREDIT (IC 6-3-3-10)**

There is an income tax credit for employers that hire qualified employees. A qualified employee is one who lives in the enterprise zone, works fifty percent (50%) of his time in the enterprise zone, and performs services for the taxpayer, ninety percent (90%) of which are directly related to the conduct of the taxpayer's trade or business that is located in the enterprise zone.

The credit is the lesser of ten percent (10%) multiplied by the qualified increased employment expenditures of the taxpayer for the taxable year; or one thousand five hundred dollars (\$1,500) multiplied

by the number of qualified employees employed by the taxpayer during the taxable year.

The tax credit can be carried forward for ten years or carried back for three years. Pass through entities' partners or shareholders are eligible for the credit in the same proportion as the distributive income to which the shareholder or partner is entitled.

### **III. LOAN INTEREST CREDIT (IC 6-3.1-7)**

Any entity that makes a loan to an entity that uses the loan proceeds for:

- (1) a purpose that is directly related to a business located in an enterprise zone;
- (2) an improvement that increases the assessed value of real property located in an enterprise zone;
- (3) rehabilitation, repair, or improvement of a residence.

A taxpayer is entitled to a credit against the adjusted gross income tax, the financial institution tax, or the insurance premium tax for a taxable year if he receives interest on a qualified loan in that taxable year. The amount of the credit to which the taxpayer is entitled is five percent (5%) multiplied by the amount of interest received by the taxpayer during the taxable year from the qualified loans. The credit can be carried forward for ten (10) years.

### **IV. ENTERPRISE ZONE INVESTMENT COST CREDIT (IC 6-3.1-10)**

A taxpayer may purchase a qualified investment which means the purchase of an ownership interest in a business located in an enterprise zone if the purchase is approved by the department of commerce.

The amount of the credit to which a taxpayer is entitled is the percentage determined by the department of commerce multiplied by the price of the qualified investment made by the taxpayer in the taxable year.

If the department of commerce finds that a purchase is a qualified investment, the department shall certify the percentage credit based upon the following:

- (1) A percentage credit of ten percent (10%) may be allowed based upon the need of the business for equity financing, as demonstrated by the inability of the business to obtain debt financing.
- (2) A percentage credit of two percent (2%) may be allowed for business operations in the retail, professional, or warehouse/distribution codes of the NAICS Manual.
- (3) A percentage credit of five percent (5%) may be allowed for business operations in the manufacturing codes of the NAICS Manual.
- (4) A percentage credit of five percent (5%) may be allowed for high technology business operations.
- (5) A percentage credit may be allowed for jobs created during the twelve (12) month period following the purchase of an ownership interest in the zone business, as determined under the following table:

JOBS CREATED	PERCENTAGE
Less than 11 jobs	1%
11 to 25 jobs	2%
26 to 40 jobs	3%
41 to 75 jobs	4%
More than 75 jobs	5%

- (6) A percentage credit of five percent (5%) may be allowed if fifty percent (50%) or more of the jobs created in the twelve (12) month period following the purchase of an ownership interest in the zone business will be reserved for zone residents.
- (7) A percentage credit may be allowed for investments made in real or depreciable personal property, as determined under the following table:

AMOUNT OF INVESTMENT	PERCENTAGE
Less than \$25,001	1%
\$25,001 to \$50,000	2%
\$50,001 to \$100,000	3%
\$100,001 to \$200,000	4%
More than \$200,000	5%

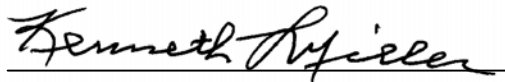
The total percentage credit may not exceed thirty percent (30%). The credit can be carried forward from one taxable year to the next; however there is no carry back or refund of any unused credit.

Enterprise zone income tax questions:

Indiana Department of Revenue  
Tax Policy Division  
100 N. Senate, Room N248  
Indianapolis, IN 46204  
(317) 232-7282

Other questions:

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Enterprise Zone Program  
One North Capitol, Suite 700  
Indianapolis, IN 46204  
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A handwritten signature in black ink, reading "Kenneth L. Miller". The signature is written in a cursive style with a horizontal line underneath.

Kenneth L. Miller  
Commissioner